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# **Hong Kong**

## **Poultry and Products**

### **Semi-Annual**

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#### **Report Highlights:**

Hong Kong's 2002 imports of chicken products, excluding live chickens, are expected to amount to 212,000 MT, representing a decline of 9% from 2001. The decline was mainly caused by the weak economy, which has severely impacted the restaurant business. Chicken feet, which are largely distributed to restaurants, decreased dramatically by 36%. The market share of US products decreased to 38% and Brazilian products increased to 32%. Hong Kong's re-export trade of US products to China has been hampered by various import requirements and this condition is expected to continue into 2003. Hong Kong's import of chilled whole chickens from China is likely to be the only factor spearheading Hong Kong's rise in retained imports in 2003.

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Includes PSD changes: Yes  
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## **Situation and Outlook**

Hong Kong's 2002 imports of chicken products, excluding live chickens, are expected to amount to 212,000 MT, representing a decline of 9% from 2001. The decline was mainly caused by the weak economy, which severely impacted the restaurant business. Chicken feet, which are largely distributed to restaurants, decreased dramatically by 36%. Retained imports may rise 4% modestly reaching 220,000 MT in 2003. The estimate is based on several factors. First, the household consumption of chicken products is generally stable. Second, the Hong Kong economy is likely to remain in the doldrums in the coming year, continuing to negatively affect the restaurant business.

Against a background of weak demand in Hong Kong, supplies from both the US and Brazil dropped by 23% and 4% respectively. The market share of US products decreased to 38% and Brazilian products increased to 32% as Brazilian products have become more price competitive in the past year. Nonetheless, Hong Kong's demand for US mid-joint wings and whole leg products continues to increase and US exports of this product to Hong Kong's domestic market may rise 5% reaching 85,000 MT in 2003.

Hong Kong's re-export trade of US products to China has been hampered by various import requirements and this condition is expected to continue into 2003. In the second half of 2002, the Chinese government started to require permits to include US plant registration number, among other details, and packaging to be bilingual. Products going to the ports in northern China, through official channels, dropped significantly because of difficulties in complying with the new requirements. Products going to the southern part of China through transport companies also decreased because of expensive transport fees. Sometimes transport companies may cease to receive orders because no permits are available at all. Consequently, traders become more reserved in ordering goods. Hong Kong's total re-export of US chicken products to China declined 23% between Jan - Oct 2001 and Jan - Oct 2002 as a result of these requirements.

Hong Kong suffered another outbreak of bird flu towards the end of 2002. Five wet markets and two farms were infected. A total of 27,000 chickens were slaughtered. The Hong Kong government has tightened up biosecurity measures, which are compulsory licensing requirements. It is expected that small farms which cannot comply with the requirements may cease operations.

Starting December 2001, China's chilled whole chicken started entering the Hong Kong market. The current average import volume amounts to 20,000 birds daily. The influx of chilled whole chickens is expected to replace freshly slaughtered chickens in the very long term. However, the immediate impact is not discernible yet.

## Statistical Tables - Poultry, Meat, Total

### PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	2	2	2	2	2	2
Slaughter (Reference)	42	42	42	43	41	42
Beginning Stocks	0	0	0	0	0	0
Production	60	60	60	61	59	60
Whole, Imports	25	0	0	0	0	0
Parts, Imports	209	233	238	212	243	220
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	234	233	238	212	243	220
TOTAL SUPPLY	294	293	298	273	302	280
Whole, Exports	0	0	0	0	0	0
Parts, Exports	1	1	1	1	1	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	1	1	1	1
Human Consumption	293	292	297	272	301	279
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	293	292	297	272	301	279
TOTAL Use	294	293	298	273	302	280
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	294	293	298	273	302	280
Calendar Yr. Imp. from U.S.	100	100	110	81	116	85

Note : Re-exports are taken from Imports and Exports refer to domestic exports.

**Price Table**

Prices Table			
Country	Hong Kong		
Commodity	Poultry, Meat, Broiler		
Prices in	US\$	per uom	kg
Year	2001	2002	% Change
Jan	0.76	0.76	0.00%
Feb	0.69	0.82	18.84%
Mar	0.68	0.78	14.71%
Apr	0.73	0.74	1.37%
May	0.76	0.74	-2.63%
Jun	0.74	0.75	1.35%
Jul	0.79	0.82	3.80%
Aug	0.77	0.73	-5.19%
Sep	0.77	0.71	-7.79%
Oct	0.78	0.71	-8.97%
Nov	0.78		-100.00%
Dec	0.75		-100.00%
Exchange Rate	7.75	Local currency/US \$	

**Table 1 : Production of Live Chicken**

Unit/MT	1997	1998	1999	2000	2001	2002
Local Supply	14,900	3,720	11,480	13,560	14,400	16,500
Import	52,570	49,180	51,810	51,310	44,730	44,400
Total Supply	67,470	52,900	63,290	64,870	59,130	60,900

Source : Hong Kong Agriculture, Fisheries and Conservation Department

**Table 2 : Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered)**

US\$/kg	1997	1998	1999	2000	2001	2002
Chicken (top grade)	\$4.70	\$5.28	\$4.73	\$4.49	\$4.60	\$4.58
Duck (top grade)	\$3.30	\$3.57	\$3.18	\$2.89	\$2.80	\$2.71
Beef (best quality)	\$7.11	\$7.20	\$7.19	\$7.17	\$7.20	\$7.15
Beef (belly flesh)	\$5.30	\$5.48	\$5.42	\$5.34	\$5.36	\$5.35
Pork (best cut)	\$5.53	\$5.62	\$5.32	\$4.87	\$4.54	\$4.26
Pork Chop	\$6.67	\$6.76	\$6.42	\$5.92	\$5.58	\$5.18

**Table 3 : January 2003 Retail Prices of Chicken Relative to Pork and Beef (frozen)**

Product Categories	Weight	HK\$ (US\$1 = HK\$7.78)
whole chicken wings (Brazil)	5 lbs	26
mid-joint wings (Chile)	2 lbs	19
whole broiler legs (USA)	2 lbs	9.9
broiler drumsticks (USA)	2 lbs	13
boneless thigh meat (USA)	2 lbs	18
whole chicken (Denmark)	3.3 lbs	23
chicken paws (Canada)	2 lbs	13
wing tip (USA)	2 lbs	7
mid-joint wings (USA)	5 lbs	38
boneless skinless breast meat (Chile)	12 oz	15
pork chop (Brazil)	2 lbs	25
boneless pork chop (Brazil)	1 lb	14
chuck (Brazil)	1 lb	17
knuckle (Brazil)	1 lb	14
fore shank (Brazil)	2 lb	23
short loin (Brazil)	1 lb	32
US Prime Ribeye	1 lb	78
short ribs (US)	2 lbs	52
rib fingers (US)	2.2 lbs	38

**Table 4 : Hong Kong Chicken Imports by Categories, Jan - Oct**

	MT, 2000	MT, 2001	MT, 2002	- 02/01 -
chicken	886,980	762,533	657,019	-13.84
chicken feet	351,087	336,951	254,043	-24.61
chicken wings	238,840	228,213	213,750	-6.34

chicken frozen cuts	247,560	151,358	138,467	-8.52
chicken, whole	15,439	21,101	21,268	0.79

**Table 5 : Hong Kong Chicken Re-exports by Categories, Jan - Oct**

	MT, 2000	MT, 2001	MT, 2002	- 02/01 -
chicken	694,329	563,646	480,512	-14.75
chicken feet	296,895	289,737	223,595	-22.83
chicken wings	164,019	153,997	156,188	1.42
chicken frozen cuts	206,132	104,141	82,101	-21.16
chicken, whole	1,136	537	453	-15.72

**Table 6 : Hong Kong Chicken Retained Imports by Categories, Jan - Oct**

	MT, 2000	MT, 2001	MT, 2002	- 02/01 -
chicken	192,650	198,887	176,507	-11%
chicken feet	54,192	47,213	30,448	-36%
chicken wings	74,822	74,217	57,562	-22%
chicken frozen cuts	41,427	47,216	56,366	19%
chicken, whole	14,303	20,564	20,815	1%

**Table 7 : US's Chicken Exports to Hong Kong, Jan - Oct**

	MT, 2000	MT, 2001	MT, 2002	% change
chicken	605,522	503,366	387,287	-23%
chicken feet	265,218	260,877	168,469	-35%
chicken wings	104,209	104,659	95,317	-9%
chicken frozen cuts	216,130	123,544	106,368	-14%
chicken, whole	2,545	974	1,073	10%

**Table 8 : US Chicken Imports to Hong Kong being Re-exported, Jan - Oct**

	MT, 2000	MT, 2001	MT, 2002	% change
chicken	525,439	416,055	319,656	-23%
chicken feet	237,782	231,891	156,584	-32%
chicken wings	78,927	80,100	75,281	-6%
chicken frozen cuts	188,633	92,457	75,026	-19%
chicken, whole	978	200	199	-1%

**Table 9 : Hong Kong's Retained Imports of US Chicken Products**

	MT, 2000	MT, 2001	MT, 2002	% change
chicken	80,083	87,311	67,631	-23%
chicken feet	27,436	28,986	11,884	-59%
chicken wings	25,282	24,559	20,036	-18%

chicken frozen cuts	27,497	31,087	31,342	1%
chicken, whole	1,567	773	874	13%



## Production

The 2002 and 2003 Production figures of the PSD table have been revised up slightly by 1000 MT to 61,000 MT and 60,000 MT respectively. The production level was 1.7% higher in 2002 than 2001 showing that Hong Kong's consumption of freshly slaughtered chickens was not affected by the third bird flu incident which occurred in early 2002. However, the forecast for this year being lower than the 2002 level is based on the assumption that the consumption of freshly slaughtered chickens would be replaced gradually by imports of chilled chickens from China. The first batch of chilled chickens from China hit the market in early December. The impact will be further discussed in the Consumption section.

The 61,000 MT of chicken production is comprised of 16,500 MT of live chickens raised locally and 44,400 MT imported from China. The self-sufficiency ratio is about 27%. The number of farms in Hong Kong is expected to decline as it is getting more difficult for farms to comply with increasingly stringent licensing requirements. Following the bird flu incident in February 2002, the Hong Kong government introduced new biosecurity requirements intended to minimize the chance of another bird-flu outbreak. Eight chicken farms have had their licences revoked after failing to meet the new requirements, which included installing disinfectant pools or other disinfecting equipment at farm gates, and building bird-proofing chicken sheds to prevent wild birds from entering. Presently, there are about 157 poultry farms in Hong Kong.

A series of bird flu outbreaks began in December 2002 when ducks, geese and swans at a park died of H5N1 flu. Since then, five wet markets and two farms have been infected. The flu strain has been identified as H5N1 but there is no sign that the strain this time is the one that killed six people in 1997 during the first bird flu outbreak. The other two outbreaks happened in May 2001 and February 2002. The three major outbreaks led to the slaughter of over 3 million chickens at a compensation cost of HK\$200 million paid to local industry by the government.

The way that the government handled the outbreak this time is quite different from the previous cases. Unlike the previous cases, the culling of chickens associated with the current outbreak has been restricted to stalls and farms infected with H5 virus. Thus, the number of chickens slaughtered amounted to 27,000 compared to over 3 million for the last three cases. Also, the government does not compensate for the slaughtering of chickens on the grounds that bird flu is already a disease indigenous to Hong Kong and that farmers should bear commercial risks associated with the chicken business. This is in contrast to the huge compensation cost associated with the previous cases. One of the farms involved initially refused to surrender his 10,000 chickens to the government. The owner finally complied when he was compensated at a cost of HK\$200,000 by owners of 10 nearby chicken farms, and was given a loan of HK\$150,000 by the government.

The government started to run a one-year trial vaccination program for 21 farms following the bird flu incident in February 2002. The two farms infected last month had not been included in the trial program. Subsequent to the recent outbreak, the government expanded the vaccination program to over 90 farms or two-thirds of the farms in Hong Kong. Despite the call for full vaccination for all chicken farms by the local chicken breeders association, the government does not have immediate plans to extend the vaccination program to cover the entire chicken population in Hong Kong, saying that more data must be collected to determine if the vaccine is effective. The government plans to fully evaluate the vaccination program in April.

In addition to the extension of vaccination program to more farms, the government also implemented additional rest days for the markets to allow thorough disinfection. Owners of chickens farms and stalls are also urged to comply with all biosecurity measures.

## **Consumption**

The 2002 consumption figure of the PS&D table is revised to 273,000 MT, which is 7% lower than the 2001 level. While retained chicken imports for the first half year of 2002 increased 2%, the figure from January -October decreased 11%. There are two possible factors accounting for the reversed trend. First, the growth rate for the retained imports of frozen whole chickens slowed dramatically in the second half of 2002 when consumption of freshly slaughtered chickens gradually picked up after the bird flu outbreak in early 2002. The bird flu outbreak disrupted trade in live chickens temporarily. As Hong Kong people got used to the indigenous bird flu scare, business rebounded when the outbreak was over.

Second, the continuing slow economy contributed to decreased consumption particularly for parts which are primarily distributed to the catering industry. For Jan - Oct 2002, the retained chicken feet imports amounted to 30,448 MT, dropping 36% from the same period in 2001. Chicken feet are largely distributed to restaurants and restaurant business has been severely hit by the poor economy. According to Hong Kong statistics, the business of Chinese restaurants decreased by 7.8% in value in the first three quarters of 2002. An importer complained that his Hong Kong clients used to have advance bookings in fear of short supplies and rising prices. His clients now prefer to make daily orders instead. At the same time, he dares not offer long term credits to his clients, fearing that they may close their business suddenly.

Hong Kong started to import chilled whole chickens from China starting December 2002 after reaching an inspection protocol between the two governments. (For details, please refer to report #HK2047). Currently, China supplies about 20,000 chilled chickens to Hong Kong daily, whereas the number of imported live chickens amounts to 100,000 head. The import level of chilled chickens once reached a height of 24,000 daily when Hong Kong consumers were eager to try the new product.

The introduction of chilled chickens from China to Hong Kong is expected to have some impact on Hong Kong's consumption pattern of chickens in the long run if not immediately. Hong Kong consumers may gradually substitute freshly slaughtered chickens with chilled chickens due to price consideration. Compared with freshly slaughtered chickens, chilled chickens are cheaper because they are slaughtered and processed in plants in China, where labor costs are lower. Also, retail shops do not have to go through a sole agent, as in the case of live chickens, but buy directly from Mainland plants. The current retail prices of chilled chickens stand at HK\$27 (US\$3.40), weighing 1.4 kg approximately compared to HK\$45 (US\$5.8) of freshly slaughtered chickens. When chilled chickens were first introduced, the business of live chickens was reported to have reduced 10% to 30%. According to a representative of a wholesale association for live chickens, the impact of chilled chickens on live chicken sales is not as severe as first expected. Overall business in live chickens has been stable in the past month. However, retailers in certain markets have lowered their retail prices by 30% to keep their clients.

The influx of chilled chickens has also affected the sale of frozen chickens. Prices of frozen chickens in certain outlets have been reduced in order to remain price competitive. With chilled chickens selling at HK\$27 per piece, the price of

frozen chickens has dropped from HK\$25 to HK\$18.

Though the slow economy is unlikely to drive any increase in consumption, the introduction of chilled chickens from China could raise 2003 consumption by 3% reaching 279,000 MT. Assuming that Hong Kong consumes 20,000 chilled chickens from China daily, Hong Kong's retained imports of all chicken products for 2003 will rise 4% to a level of 220,000 MT. Meanwhile, the consumption of freshly slaughtered chickens is likely to drop slightly to 60,000 MT due to substitution effect of chilled chickens. The estimate for the increase in 2003 chicken consumption is largely ascribed to China's chilled whole chickens imports.

The consumption of U.S. chicken products for 2003 is unlikely to be affected by China's chilled whole chickens as the most popular U.S. chicken products in Hong Kong are parts, wings and feet. Between January - October 2002, Hong Kong consumed only 874 MT of U.S. whole chickens occupying only 4 % of the total whole bird market.

## Trade

As a result of the decreased consumption of chicken products in 2002 as mentioned in the Consumption section, total imports of the PSD table (imports minus re-exports) is adjusted accordingly to 212,000 MT. The 2003 forecast is 220,000 MT, rising modestly by 4% largely due to the importation of chilled whole chickens from China. In 2003, Hong Kong's overall chicken trade will probably suffer from the continual weak economy, which will prevent any significant jump of domestic consumption for items mainly consumed at restaurants. Although Hong Kong people go to restaurants less during an economic downturn, leading to decreased consumption of chicken products in restaurants, household consumption is generally stable.

One significant highlight for chicken trade was that the market share of U.S. products declined from 44% in 2001 to 38% in 2002. Even though the U.S. is still the largest supplier. Brazilian products are the major competitor. Their average price declined 7.4% while that of US products rose 4.5% last year. An importer quoted US\$450/MT as the January price of Brazilian chicken feet and US\$750/MT for 3 joint wings (100 gm/piece). The price of Brazilian products have been very competitive and this could explain the expansion of market share of Brazilian products.

Due to unfavorable business environment for restaurants, US exports of chicken feet for the domestic market dropped dramatically by 59% in Jan - Oct 2002 compared to the same period in 2001. Hong Kong's weak economy is expected to continue in 2003, so US exports to Hong Kong will not jump significantly. However, considering household consumption is stable and there is a constant demand for US mid-joint wings and whole legs, US chicken exports to Hong Kong may rise slightly by 5%.

### Re-exports to China

In Jan - Oct 2002; 480,512 MT or 73% of Hong Kong's total imports were re-exported and 97% of re-exports were shipped to China. Hong Kong's chicken re-exports to China declined 16% comparing Jan - Oct 2002 and Jan - Oct 2001. Traders commented that demand for chicken products still exists in China. However, the increasingly stringent import requirements that hinder Hong Kong's re-export trade to China.

In the second half of 2002, China started to implement two new administrative measures on imports. First, the Chinese government required the permit to include consignee's name, plant number and product name. Second, each

consignment has to carry bilingual labels on the cartons specifying product name, plant number ,etc.

According to traders, the new measures hurt their business. Companies shipping consignments to the northern destinations such as Shanghai through official channels have to comply with the regulations. It is difficult to obtain a permit, and even if they have one, they cannot switch to another buyer because the plant's number has been stated on the permit. In connection with the bilingual labeling, not every exporter is willing or able to do so. Consequently, Hong Kong traders find it difficult to ship US products directly to ports in the northern part of China. A Hong Kong company confirmed that their direct shipments to Shanghai dropped 60% in 2002.

The new administrative measures indirectly encourage Hong Kong traders to move their products to the southern part of China through transport companies. Transport companies try to secure a number of permits in hand first and will change the packaging of consignments accordingly to match the plant number being stated on the issued permits at an additional cost of RMB200 to RMB300/MT. Similarly, packaging can be changed to provide bilingual labeling to comply with import regulation. In general, US exports can still have access to China through services provided by transport companies.

However, the new import regulations have negatively affected trade. Traders find it difficult to estimate operation costs. Transport fees fluctuate greatly, depending on the availability of permits. The cost could be lower if an available permit already matches the plant number of the consignment. If no permits with the right plant number are available and the trader prefers to wait for a permit instead of changing the packaging, he may need to pay expensive storage cost in Hong Kong. Sometimes, there are no permits available at all even if traders are willing to pay expensive transport fees. Consignments simply sit in Hong Kong warehouses indefinitely. The transport fee was as high as RMB150,000 to 180,000 per container between March and October 2002, given the scarcity of permits. (The normal price is RMB70,000). During that time, many traders miscalculated the situation and suffered big losses. With such high risks, traders tend to be very conservative in making orders. This could explain why Hong Kong's re-exports to China dropped 16% between Jan - October 2001 and Jan - Oct 2002.

In Jan 2003, transport fees have dropped to normal levels because transport companies still have plenty of unused permits which will be expired soon. Traders said that they dare not to rush to make orders because they are not sure how many consignments will be arriving at the same time and whether reasonably priced transport fees will prevail when their goods arrive in Hong Kong. This shows how the fluctuation of transport fees have affected Hong Kong's re-export trade to China.

In 2002, U.S. chicken feet exports to China were greatly reduced resulting from the health certificate issue. (China used to accept FSIS health certificates with remarks stating that the products have conformed to Hong Kong's food standard. Since late 2001, China started to reject such certificates and requested the US to amend its inspection procedure for chicken feet.) Since US chicken feet are a major export item to China, reduced export in this particular one item will have a tremendous impact on the overall trade of US chicken products to Hong Kong for 2003, unless more US plants are willing to invest in their plant facilities which will comply with the new inspection procedure for chicken feet. Considering import permit and chicken feet issues, Hong Kong's re-export of US chicken products to China may decrease in 2003.

Since China does not allow Brazilian meat products, their transport fees to China are more expensive than those of US products. Nonetheless, Hong Kong's re-export of Brazilian products to China increased 50% because of the

significant decline in product costs. Traders revealed that they tend to provide Brazilian products unless their clients specifically request US products. In the coming year, price will continue to have a dominant bearing on procurement decisions.

## **Policy**

There have not been any significant changes to Hong Kong's import policy since the last report. Hong Kong government did not initiate any changes in import requirements for US products because of Newcastle disease in California. Newcastle disease has also occurred in Hong Kong's farming industry.

Hong Kong and China reached a protocol for the importation of chilled poultry products to Hong Kong effective December 2002.